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Approved by:

Brian Goggin
U.S. Embassy

Prepared by:

FAS Staff

Report Highlights:

FAS Bucharest further revises down, from our July figures, production estimates for MY 2003/04 at only 2 MMT, of which about half is reportedly kept in reserve on-farm and unlikely to reach the market. The U.S. have a real window of opportunity for milling wheat sales to Romania, because this commodity is scarce in the region and traditional sources are gradually exhausted. Duties for milling wheat were lifted by the GOR through December 2003. Moreover, a recent development is that the licensing system initially adopted to monitor wheat imports was recently repealed and the authorities are considering extending this trade action up to the new crop, that is, May 31, 2004. A slightly below average corn production - estimated by FAS Bucharest at about 6.5 million MT - combined with very low feed wheat and barley inventories, boosted demand for corn and raised domestic bids to unusual levels (\$150/MT, with an ascending trend) for this time of the year

Includes PSD Changes: No
Includes Trade Matrix: No
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Sofia [BU1]
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Wheat and Barley: Historical Low Production

Temperatures reaching historical lows in the winter - spring of 2003, followed by an unprecedented shortage of rainfall and extreme heat in summer over the southeast Balkan and Danube-basin region, which reduced Romania's wheat and barley production to levels that make the country heavily dependent on imports for the rest of the current marketing year.

Strongly affected by these extreme weather conditions (which, moreover, favored intense pest attacks), local wheat hardly meets local milling standards. The official average yield estimate is 1.7 MT/HA on a total 1.4 million HA harvested, resulting in an output of 2.4 MMT. The highest yields and best quality were obtained in western Romania, with 2.5-3 MT/HA in Timis and Arad, while most counties in the Danube Plain and Moldova were devastated by drought. A similar pattern can be observed in winter barley, for which official production figures stand at 230,000 MT, derived from an average yield of 1.9 MT/HA on 117,000 HA cropped, with large disparities ranging from 2.4-3 MT/HA in west (Timis, Arad), to 0.2-0.5 MT/HA in south and east (Baragan Plain and Moldova). To these, a modest production of about 240,000 MT of spring two-row barley adds.

Data from industry and field observations, corroborated with satellite pictures, nonetheless indicate that production figures stand at even lower levels. FAS Bucharest further revises down production estimates for MY 2003/04 at only 2 MMT (as our average yield estimate is 1.4 MT/HA), of which about half is reportedly kept in reserve on-farm and unlikely to reach the market.

Prices

The milling industry cannot purchase reasonably large lots from domestic sources. Imported wheat (mainly from Russia, France, Hungary, Bulgaria and Kazakhstan) comes at \$180-190/MT, CIF, i.e., about \$190-200/MT in-silo.

As anticipated in our July report, increases in consumer prices for bread (the main calorie source in the average consumption pattern) were unavoidable, despite authorities' efforts to stabilize the market. In August 2003 the GOR decided to suspend customs duties for 1 million MT of milling wheat TRQ (HS code 1001.90.99), imports to be monitored via licenses. The licensing system proved to be inefficient and hard to administer, and thus the regulation was amended in October via GOR Decision 1204, that lifts duties for milling wheat through December 2003.

Moreover, the authorities are considering extending this trade action up to the new crop, that is May 31, 2004. Duties on barley malt will be also temporarily waived.

Under such circumstances, we expect imports of baking wheat and wheat flour will exceed 1.5 million MT, as urban consumption alone is estimated at 120,000 MT/month.

Farm gate prices for domestic wheat can occasionally exceed \$200/MT compared to \$95-100/MT in October-November 2002, but practically there are no transactions with domestic wheat currently. Domestic prices are anticipated to further raise as regional sources are gradually exhausted and geographical distance to exporters increases.

Imports

Romania expects to import up to the end of November 2003 about 950,000 MT of wheat. The main sources are France (350,000 MT), Russia (350,000 MT), Hungary (100,000 MT), Bulgaria, Kazakhstan, and Canada (soft wheat).

The U.S. have a real window of opportunity for wheat sales to Romania, because wheat is scarce in the region and traditional sources (Hungary, Moldova, Ukraine, EU) may turn into or are already net importers themselves. Such imports from over the Ocean become reasonably priced only if shipped with large vessels (50-60,000 MT), but infrastructure bottlenecks in Constanza port (with only two terminals equipped to unload panamax) severely limit this opportunity.

Crop Prospects for MY 2004/05

Wheat and barley planting for the 2004 crop have been performed under adequate moisture conditions in most cereal growing regions (exceptions being the northern counties, with topsoil moisture deficits). Nonetheless, the low air and soil temperature in October has slowed down seed germination and emergence. Ministry of Agriculture's new program to encourage (via payments per cultivated hectare) wheat planting on about 1.8 million HA seems slightly overoptimistic to date, when only 1.4 million HA are reportedly sown to this crop, mainly because of farmers' concerns about drought reduced crops. Winter barley has been sown on about 150,000 HA before the end of October 2003.

Corn: Just Enough to Make Romania Self-sufficient

The MY 2003/04 Romanian corn crop is officially estimated at a record level of about 9 MMT (derived from a total harvested area of 3 million hectares and average yields of 2.97 MT/HA).

AgBucharest's estimate is significantly lower, i.e., about 6.5 MMT, as satellite pictures and field observations indicate that the extended drought period shrank the total 3 million hectares planted to corn in spring by about 15 percent at harvest time, after plant development had been timely aided by May rainfalls. Our average yield estimate is 2.5 MT/HA, with productions over 3 MT/HA in the Banat plain (Timis, Arad) and less than 2 MT/HA in many southern and eastern counties. These figures are consistent with industry's assessment of corn supply in MY 2003/04.

Despite these still reasonable production levels, which, together with the stocks existing at the beginning of the marketing year, would have been able to generate, under normal conditions, a small exportable surplus, the extremely scarce feed wheat and barley inventories boosted demand for corn. About 4.5 MMT of this year's production is stored on-farm, because of a concern about a domestic feed shortage. Domestic bids for corn at farm currently vary widely in an unsettled market, between \$120-200/MT and traders do not anticipate to ship any corn during the current marketing year, except for very small amounts contracted in advance. In many regions of the country rainfall during harvesting season increased moisture to 30 percent, incurring additional costs for artificial drying. It is thus highly unlikely that Romania will make any use of the 149,000 MT TRQ granted by EU for corn under the double profit agreement.

